RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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26 Letters Per Year • $250 annually

June 23, 1993 **LETTER 1124**

THE MARKET: As you can see on the chart below, the D-J Transportation Average has dropped out of sight on the downside. The swooning carriers have set up a tug-of-war -- with the Transports trying to pull the Industrials down, and the Industrials resisting with all their might.

Of course, technically what we've got now is a Dow Theory downside non-confirmation. If the Dow can continue to resist the downside, then as soon as the market is sufficiently over-sold, we can expect a rally. How good a rally, I don't know, but I'm not particularly hopeful.

If I had to guess I'd say that the rally will be a weak one in that Transports will fail by a wide margin to confirm any Industrial strength. Then, on the next decline we'll see what we've got. It's on this next decline (following the rally) that I expect trouble -- real trouble.

Since April the Industrials have been by far the strongest Average. But what if the Industrials finally do weaken? Looking southward, the first downside Dow level of any importance is the **April 14 low of 3443.01.** If anything nasty is going to happen, the initial indication would be a Dow violation of that level.

One thing this market is doing is trying the patience of investors. The Dow hangs on or creeps higher, the Transports sink lower, the Utilities move basically sideways. And although many stocks and stock groups get their respective heads handed to them, the market, so far, has held together.

Last week (see page 2 chart) my PTI came down to exactly touch its eight-month rising trendline, a trendline that started from the October 9 low. Then, surprise, on June 18 the PTI rallied to a new record high. So here's the story -- the PTI remains in its bullish mode. I keep thinking the PTI is ready to reverse -- but it's not happening. So far, even the PTI's long rising trendline has not been violated.

The advance-decline ratio (page 2 chart) has moved sideways following its early March peak. But since October 9 the ratio has never declined as much as one full point. Therefore, strange as it seems (and frankly, I've never seen anything like this action), the Buying Stampede is still in force. My guess (I'm doing a lot of guessing in this Letter) is that once the A-D ratio drops a full point, this market will head down in earnest.

Daily new highs on the NYSE have dropped off dramatically, and this is usually considered a danger signal. On the other hand, new lows have not picked up. So here too we have a technical stand-off.

It's worth noting that tens of billions of dollars (via the mutual funds) are still pouring into the market. All those billions are being absorbed, but the market has not moved substantially higher. Why? The obvious answer is that there is also a lot of selling going on and billions of new stocks being floated. This would suggest that there is a great amount of equity paper being shoveled off to the public. On the face of it, this should be a negative for the market. But it is not showing up in market weakness -- yet.

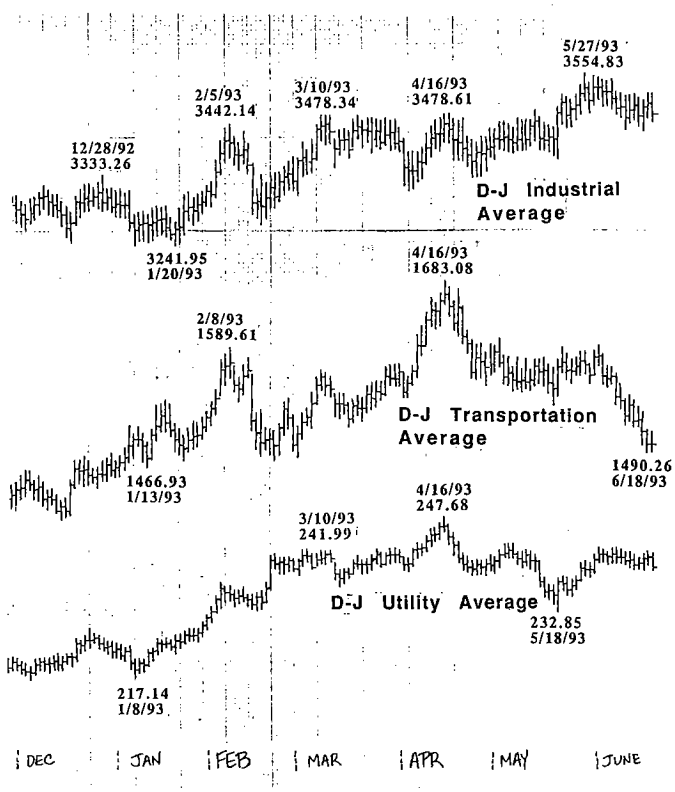
Conclusion: Let me put it this way -- downside action by the stock market has, so far, been unimpressive -- but so has the upside action. So I have to fall back on that old technical truism: the trend remains in force until proved otherwise. The prevailing trend has been and is bullish. Warning -- that's true as long as Industrials hold above **3443.01.**

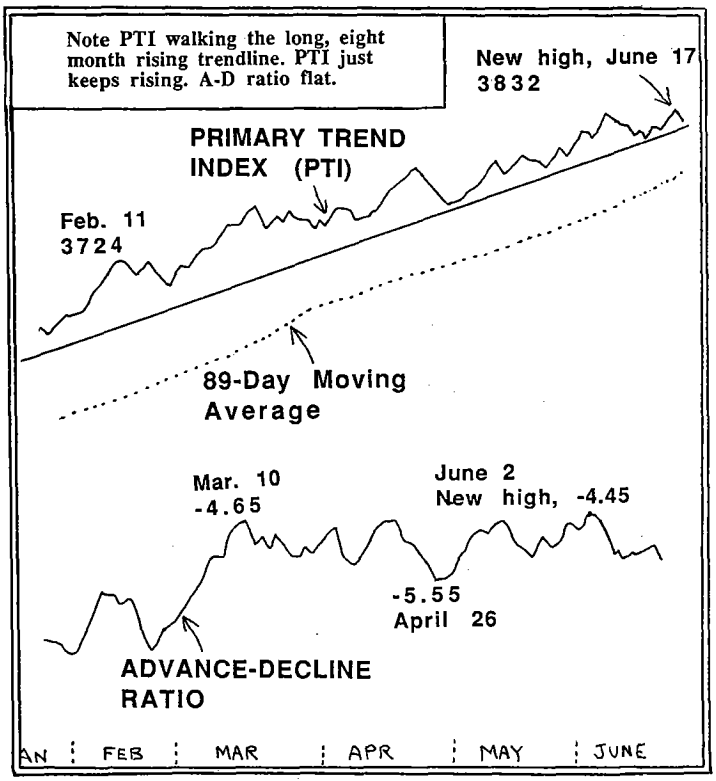
June 11 DJIA 3505.01; PTI 3819; A-D Ratio -5.04
June 18 DJIA 3494.77; PTI 3827; A-D Ratio -5.14
Dow Yield: 3.15%; Dow Price/Earnings: 31.8
Dow 200-day MA: 3351; Dow 30-day MA: 3512
Dow Times Book Value: 2.68; PTI 89-day MA: 3781
Percentage of Undervalued Blue-chips: 6%
Low Risk Buy Index: +65

INVESTMENT POSITION: It may not feel like it to you (depending on which stocks you own), but it's still a bull market. It's a very long-running bull market, and it's a tired one. But it's a bull, so toro remains in the box.

Gold stocks have been correcting in line with the price of gold itself, and this is as it should be. In a bull market, you don't bail out during corrections, you use corrections to buy. I noted that this is the early part of the second phase of the gold bull market. The second phase is characterized by erratic movements, sharp breaks, and sudden run-ups. It's not an easy phase to sit through, but we take what the market gives us.

I continue to believe that gold is the bargain investment in today's market, and I also think that gold will be the big profit-builder of the future. Watching the action of the gold stocks, I think that Placer Dome, Homestake, Pegasus and Hemlo act particularly well.





As for other equities, one sign of an overvalued stock market is sudden collapses in individual stocks on the advent of bad news or news that is less bullish than expected. Today we see individual stocks suddenly lose 20% to 30% of their value in a single day or a few days (Wal-Mart, Apple, the airlines, etc.) as investors dump shares in reaction to a disappointing earnings report or some other unfavorable item.

I recommended a number of Hong Kong stocks, and that was many months ago. Hong Kong is hot, their stock market is at or near the highs. I still feel OK about these stocks. The stocks have done well, but I'm obviously less enamored with them now (now that they're up) than I was when I recommended them. But I'm holding them.

It's clear to me that we've come to the end of the "easy money" phase of the great bull market in stocks. At this point the game appears to be subtly changing, and the real trick will be not to lose money. Translation -- I feel the stock market is setting up to (increasingly) produce losses. I just don't like the "feel of things."

THE REALLY, REALLY BIG PICTURE: There's a new world coming, and here's what I see ahead. I believe we're now in the downside of the Kondratieff or great "long wave" (or if you believe the long wave is nonsense, let's just say we're in the throes of a global contraction). This has meant unemployment, and I'm talking about chronic worldwide unemployment. From Germany to France to China to New York to California, the problem is -- JOBS. There just aren't enough of them. Along these lines, I pasted together a montage of recent articles on the subject, ALL collected within a one-week period.

There are many reasons why I believe we're in a period of chronic global unemployment. Here are a few of my reasons: (1) Higher corporate taxes, higher worker's compensation, higher medical expenses, "higher everything" is making it extremely expensive for companies to take on new workers. It's far cheaper to use part-time workers or pay overtime than it is to hire new people.

(2) The advent of the computer is rendering millions of employees "obsolete." Computerize an office, computerize a factory's production line, bring in the robots, and you can lay off people by the hundreds, by the thousands. Almost every corporation everywhere is in a fierce battle to cut costs. And the computer is making it easy. Two weeks ago Microsoft announced that it had software which would link all elements of an office together. This will undoubtedly eliminate additional thousands of white collar jobs (up to now, the blue collar people have been getting the worst of it).

(3) There is a strong trend towards people working at home on their own or taking part-time jobs. This is not a plus, it's simply another indication of the extreme difficulty that the average person is experiencing in finding a full-time job.

(4) Where companies can utilize unskilled labor, they are increasingly turning to cheap labor sources in undeveloped countries. Thus, jobs are being exported by the thousands (and believe me, being 20 miles north of Mexico, you most definitely see it happening here).

(5) This from a *Newsweek* June 14 article entitled, "Can Anyone Spare a Job?": *"If bigness was yesterday's corporate creed, today's is flexibility. Only the most vital operation must remain under corporate roof; everything else is handled by networks of joint ventures, spinoffs, subcontractors, temporary workers. For individual companies, and as for the economy as a whole, the result is higher productivity. But for most workers, it means more instability and insecurity . . . unskilled workers, whether they previously earned their living in industry, in government, or in the service sector, are at the heart of the unemployment problem."*

So unemployment, as I see it, is becoming THE major global problem. In the US, *Sindlinger* puts true unemployment at around 10%. Europe currently has an army of 20 million unemployed. China has a severe unemployment problem, and in Japan for the first time since World War II workers are being laid off.

What happens next? Massive political pressure is building to "do something" about all the unemployed. Governments are already running huge deficits, and these deficits will worsen as political pressure increases to take care of the legions of jobless. And remember, this is all happening while the primary trend is still bullish. What can we expect when the primary trend turns down (as it will)? I'll leave that one to your imagination.

One thing we can expect when the primary trend turns down is that the public will suffer frightening losses in stocks and bonds. That, in turn, will mean a tremendous shortfall in tax receipts to the government. On top of that, unemployment will surge, and corporate profits will plunge. The net result will be that government deficits will go from bad to horrendous.

With sky-rocketing deficits and rising unemployment, and with a probable liquidity crisis, central banks will rush to reliquefy. They will monetize everything in sight in a frantic effort to turn their respective economies around. The political pressure for easy money will be overwhelming. As the various nations move towards accelerating monetization, suspicion will increasingly fall on paper currencies.

All financial instruments will be suspect -- stocks, bonds, annuities, anything with debt behind it, anything that lacks intrinsic value.

During the Great Depression of the '30's there was one island of safety -- the dollar. Nobody doubted the value of dollars. The problem wasn't the value of the dollar, the problem was "How do I get my hands on a few dollars?" (Believe me that was the problem; I know, I was there.)

In the next bear market I'm convinced it will be different. I believe that ALL currencies will come under suspicion. At that time I believe the island of safety will be real money, money that has not been created "out of thin air" by monetizing debt. In the next bear market I believe people will only trust money with intrinsic value. Today there is only one form of real money -- it's called gold.

Question: Russell, let's say you're right, that somewhere in the coming months (or years, who knows) the primary trend will turn down and all hell will break loose. Profits will collapse, but debt

will remain, and there will be a panic for money if for no other reason than individuals and corporations want to stay solvent. But under such conditions, how do we know that people won't sell their gold to raise dollars? After all, we pay our debts with "legal tender" dollars, not American Eagles or Kruggerands.

Answer: First, I don't see the bear market coming in a matter of years. My guess is that it will come this year or possibly next year (although I'd be surprised if a bear market holds off as long as say late '94).

Next, my best guess is that when the market turns down and the bear takes over, people will slowly (or maybe suddenly) realize that debt is a "killer." Debt will become a dirty word (Note: isn't it amazing that just in the last year "government deficits" have finally become a dirty phrase). During the bear market people will realize that real tangible wealth is where safety lies. No, I think as tax receipts to the government fall off, as the deficit pushes skyward, as the Fed rushes to monetize, there'll be a parade into gold.

Consider this: the public has been rushing headlong into the financial markets month after month, buying stocks and bonds with almost reckless abandon. The public is convinced that the place to be is in financial instruments.

Meanwhile, I believe that informed investors have been moving out of stocks and bonds. I believe they are moving into tangible instruments, instruments with intrinsic value, "real" wealth.

Four out of ten managers now fear for their jobs

By Diane Summers

FEAR OF unemployment among professional and managerial employees has increased sharply during the past few weeks, according to the co...

they feared losing their jobs.

Overall, 43 per cent of workers in Britain are worried they could lose their jobs during the year, compared with 41 per cent last month. As well ...

ment total in each of the last th... months. In April the number of ... ple out of work and claiming ben... dropped by 1,400 to 2.9m, or 10.5 ... cent of the workforce.

Europeans Fear Unemployment Will Not Fade With Recession

Companies Shifting Jobs to Low-Wage Countries

By ROGER COHEN
Special to The New York Times

PARIS, June 12 — A new unease has taken hold in Europe as the conviction grows that record levels of unemployment may be tied less to the continent's economic slump than to fundamental ...

percent to 23 million people, or 11.9 percent of the work force. And that prediction is based on the beginning of a recovery next year in the European economy.

...oduction fell 1.5% in ...

...day, June 4, 1993

...nomy Shrank ...hree Months

...f pulling east Germany's ravaged ...ay out of the ruins of commu...

...nomists say recovery will depend ... on further cuts in interest rates ... Bundesbank. But Germany's ...ndent central bank has made ... will not be pushed into rapid rate ...hile the risk of inflation remains ...und its policy-making council left ... rates unchanged yesterday.

"Progress in fighting inflation and ... intensified efforts to restrict governmen... spending ... could make further inter...

Japan sees industrial output fall

By Charles Leadbeater in Tokyo

JAPAN'S economy is bumping along the uneven bottom of the downturn which started about ...

tained progress in reducing it... inventories of unsold product...

In spite of the fall in produ... tion, inventories of unsol... products fell in April by 1.7 pe... cent from the month before ...

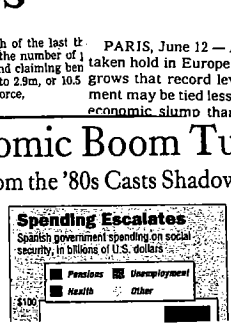
Spain's Economic Boom Turns Into Bust

Pile of Debt From the '80s Casts Shadow Over Elections

By PETER GUMBEL
And CARLTA VITZTHUM
Staff Reporters of THE WALL STREET JOURNAL

SEVILLE, Spain — After a long fiesta, Spain is waking up to a bad hangover and a pile of overdue bills.

Gone are the vibrant growth and heavy investment that turned the nation's economy into one of Europe's most dynamic in ...



Whatever the case, the largesse has brought a sea change in Spanish voting patterns. Mr. Gonzalez's Socialists used to rely on the support of the young, urbat... middle classes, but they have increasingly become the party of the rural poor and the elderly, traditionally the constituency o... their conservative opponents.

"In Andalusia, everyone voted for ...

For Swedes, Jobless Rate Is High

But the country leads the way in Europe in finding ways to keep the unemployed active

By Howard LaFranchi
Staff writer of The Christian Science Monitor

that with unemployment rising so fast, the goal becomes more difficult to reach," he adds ...

preneurial" and better-educated generation has been hit by the recession.

ing ways to make new hires less costly for companies. But until economic growth rebounds, a

. . . But Gloom Globally

The outlook for the world economy is downright bleak and depressing, with already-high unemployment rising even higher over the next 18 months, according to the latest readings from the Organization for Economic Cooperation and Development. Reflecting the OECD's expectation that Germany will suffer a serious recession, the Paris-based group has lowered its 1993 growth forecast for its 24 member nations to 1.2%, from 1.9% forecast ... December. Unemployment in ... OECD area is expected to rise ... 7.9% last year to 8.5% in '93 and 8.6 ... 1994. Following this gloomy fore...

Bleak prediction of rising unemployment

OECD reduces forecasts for industrial growth

By Peter Norman, Economics Editor, in Paris

THE ORGANISATION for Economic Co-operation and ...

Germany's jobless total is expected to increase to about 4.5m, or 11.4 per cent of the labour force, by the end of next year from 4m or 10.1 per cent this year. Six ... the OECD forecast a slight downward revision to its forecast for US growth. Officials regard the US economy's weak performance in the first quarter as a temporary aberration that should be followed by a gradual

Japan and Germany pressed to boost economies

By Peter Norman in Paris and Quentin Peel in Bonn

THE US yesterday renewed its pressure on Japan and Germany to boost their economies as a report from the Organisation for Economic Co-operation and ...

Chronic Joblessness Found After Aerospace Layoffs

■ Employment: Half of those laid off in 1989 were out of work or had left state two years later, UCLA study says.

By RALPH VA... TIMES STAFF ...

...dented downturn, found a pattern of chronic joblessness, falling in... comes and downward mobility for ...

Can Anyone Spare a Job?

Why the world's jobless woes are getting worse

Jobless-rate alert pulls out all stops

By Peter Norman, Economics Editor, in Paris

WORDS such as "serious", "disturbing" and "alarming" are strong stuff in the subfusc world of international economic institutions such as the Organisation for Economic Co-operation and Development.

It follows from this that the OECD economies must remain open to international competi...

will have to brace themselves to handle "radically new perceptions and attitudes, and fundamental changes in the processes of production, and of work organisation".

For College Graduates, Painfully Tight Job Market

By WILLIAM CELIS 3d

As the nation's 1.3 million college ...

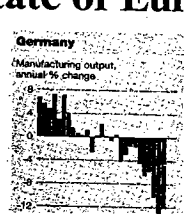
Winners and Losers

ECONOMICS

Unemployment data expected to show gloomy state of Europe's labour market

THE problem of high unemployment will be taxing the minds of ministers from the world's leading industrial nations this week, as a string of poor unemployment data is expected in Germany, Belgium, Denmark, Finland and the US.

The European figures are likely to confirm the gloomy state of the continent's labour market, while in the US the markets will be nervously watching non-farm payroll fig... at the end of the week.



markets closed. Canada, March real GDP (up 0.3 per cent on month). Japan, April industrial production (down 2.8 per cent), shipments, construction orders, housing starts (up 5.6 per cent on year), construction starts. Australia, April current account, building approvals.

Today: France, Franco-German summit with Mitterrand and Balladur both representing France. US, May NAPM index (50.4 per cent); April personal ... furt, Q1 GDP – west (down 1.5 per cent). US, initial claims week ended May 29 (340,000); state benefits week ended May 22; money supply data for week ended May 24. Canada, May foreign reserves. Japan, April current account, trade balance, foreign bond investment.

Friday: Germany, May unemployment – west (up 40,000), vacancies (down 3,000), short time work – east (down 15,000), unemployment – east ...

Kobe Steel to Slash 1,900 Jobs as It Cuts Profit Forecast

Compiled by Our Staff From Dispatches

TOKYO — Kobe Steel Ltd. said Tuesday it would cut employment by 1,900 jobs, or 9.5 percent, to a total of 18,200 by the year ending March 1996, from 20,100 now.

The personnel cutback will in... 1,300 engineers and 600 ad... 1995-96, he said, down from 46 percent.

The company had the largest net profit, at 11.7 billion yen, of any Japanese steelmaker in the year ended March 31, but it offered the darkest forecast of any of the top steel ...

Economies Are Facing 'Alarming' Jobless Rise

OECD Sees 36 Million Unemployed by End of Year Amid Stagnation

By Carl Gewirtz
International Herald Tribune

PARIS — A forecast of an "alarming" rise in unemployment this year will confront senior government officials Wednesday at the annual ministerial meeting of the Organization for Economic Cooperation and Development.

The number of unemployed people is expected to soar to almost 36 million this year in the 24 OECD countries, from 32.5 million at the end of last year. Even that, the OECD secretari...

The most obvious example of this is Henry Soros who runs the multi-billion dollar Quantum Fund. Recently (amid great publicity from the financial community) Soros purchased 20% of one of North America's premium gold mines, Newmont Mining. Then last week it was announced that Soros is setting up a fund to purchase over $700 million in depressed British real estate.

Is Soros bullish on real estate? I don't know exactly how Soros' thinking runs, but I do know what he's doing. He's buying tangible assets, gold and real estate. And the rumor is that Soros is short bonds.

How would real estate do during a global depression? It did horribly during the '30s. But at least a building is something that doesn't disappear during a financial collapse. It is an asset, and if it's financed correctly it can survive through a depression. Well financed real estate survived during the '30s. People have to live somewhere, business has to be housed somewhere.

So the Big Picture, as I see it, is that we are in the early part of a big investment transfer. The transfer is this -- informed investors, sophisticated investors are moving out of financial wealth and into tangible or real wealth. The transfer has been slow, it has been somewhat erratic, it has been almost unnoticed until recently. But it is happening.

Question: Russell, again, let's assume you're right. Let's assume your scenario comes to pass and gold becomes the world's island of safety. How high do you see gold going?

Answer: Well, it's guessing time, but there is such a thing as an educated guess. The first phase of what I call the "stealth" bull market in gold ended in 1987 at 500. Gold in the first phase rose from the 1985 bear market low of 284 to 500, an advance of 216 points.

The second phase of a bull market is usually the longest phase, and it is in this phase that one sees a great increase in public participation. Therefore, it would not surprise me to see gold rise double the distance it rose during the first phase. A double of the first phase advance (from the 326 second phase low) would take gold to 758 or roughly to the high of 1980. From there we could see a correction, but it would not be the end of the gold bull market.

In the third or speculative phase, I could see gold going to as high as 1500. This is the phase where the public rushes in with both feet, it is the frenzy phase comparable to today's situation in the stock market. The third phase of the gold market would be the one where we would see the meaning of the saying, "There's no fever like gold fever." Believe me, we will see those words spoken again.

Question: You keep talking about today's speculative phase in the stock market. What's so speculative about the stock market today?

Answer: We've been in an overvalued stock market so long that people have grown immune to today's historically ridiculous prices. In his most recent Letter, Bob Prechter (*Elliott Wave Theorist*, Box 1618, Gainesville, GA. 30503) included a paragraph which I thought was a beaut. Let me repeat it here:

"Some day your grandchildren will ask you about the Great Paper Asset Mania. 'What was it like when people couldn't get enough stocks and bonds?' 'Well,' you'll reply, 'Believe it or not, it seemed perfectly normal at the time.' Then they'll ask you about the statistics. Were there really more mutual funds than individual stocks on the NYSE and the ASE Exchanges combined? Did the public really pour record amounts of money into the mutual funds month after month even though stocks were barely rising? Did pension funds really put all those assets they were supposed to protect into Transport stocks yielding a record low 1.2% and Industrial stocks yielding a record 2.8%? Did numerous companies actually pass resolutions forcing executives to take huge positions in stocks and junk bonds and municipal bonds even though the depression had already started four years earlier? Did most professionals counsel the public that stocks were a necessity in a portfolio and that long term they always went up, so don't worry? And you will say, 'Yes.'"

Sounds crazy when you read it, doesn't it? I'd guess Prechter's paragraph will sound even crazier three or four years from now.

Question: OK, Russell, let's say I buy your scenario. But how far would you go into gold? What percentage of your assets would you put into gold?

Answer: That's a question I just can't answer. I can't answer it because I don't know your finances or your psychological make-up. I know mine, but I don't know yours.

So the only answer I can come up with is -- buy whatever you're comfortable with. If you buy too much (too much for you), you're going to lose sleep during gold's first reaction. If you don't buy enough, you're going to kick yourself around the block if gold pushes over 400 and heads higher.

Remember, in the early stages of a bull market it's (emotionally) difficult to buy. You're alone, everybody is buying something else, and it isn't gold. The easy part of a bull market is the latter part of the second phase and most of the third phase. But this is the early part of the second phase, and prices are going to be erratic, corrections will be frequent, and everybody from your broker to your favorite columnist and your Senator in Washington will be telling you to "Stay away from gold."

Here's an interesting piece from my mentor, the great Dow Theorist, George Schaefer. This was written on February 26, 1972, at the beginning of the great 1970-80 gold bull market. *"As I see it, the golden opportunity to buy gold mining stocks is now. This is 'contrary opinion' buying time. I could almost say with a great amount of certainty that a full 99% of today's investors do not want gold mining stocks, and that within several years from now, when these same stocks are sky-high, that same 99% of today's investors will want to have just as many gold mining stocks as possible in their investment portfolios. So why not talk to yourself about this matter, think it over from all angles, and then do what your logic (not your emotions) tells you to do. In that way, I feel that some real profits in gold shares will be yours by 1975."*

Of course, it took longer than Schaefer envisioned. Gold continued to rise, but it did not explode until 1979-80. Everything seems to take longer these days -- mainly because of government manipulation. But in the end, government interference can't change or reverse a primary trend. Government interference simply magnifies the trend in both duration and extent.

Finally, I want to add these paragraphs from the latest *Bank Credit Analyst* (*BCA Publications*, 3463 Peel St., Montreal, Quebec, Canada H3A 1W7). *"Since 1990 global money growth as measured by a weighted sum of G7 countries has collapsed from 9% to approximately 2% . . . The combination of a sharp slowdown in global monetary growth together with unanticipated disinflation has left the industrial world with a fiscal dilemma. The G7 economies are too weak for fiscal contraction while budget deficits are too large to allow fiscal stimulus . . . It is this fiscal dilemma that will force G7 countries to monetary stimulation just as the UK and Italy, under similar fiscal dilemmas . . . have done in the past."*

NOTE: Be sure to read the article, "The Inflation Aberration" in the June 14 issue of *Barron's*. This is absolutely must reading.

NOTES & QUOTES: Generating the next depression and bear market -- here's the perfect formula: (1) Take away all the tax shelters, but keep 'em happy by lowering taxes. Already happened. (2) A few years later raise taxes. Already happened. (3) Manipulate interest rates down, thereby driving the public into stocks and bonds "to make up for lost interest income." Happening now at a bank near you. (4) Bring on the Clinton "tax-pack," the biggest tax increase in American history. Coming up. (5) The specter of rising taxes drives investors into municipal bonds. Has already happened. (6) The huge Fed infusion of liquidity generates inflation and higher interest rates. Coming up. (7) Stock and bond markets, including munis, collapse. (8) Monster continuing deficits drive

interest rates still higher. Mutual funds are broke, markets are broke, business is broke, and so is the American public.

* *

The Democrats control the House with a majority of 80. On May 27 the House passed Clinton's tax bill with a six vote margin. Russell comment: I believe that any member of the House or Senate who votes to increase taxes runs a good chance of getting the boot in the next election.

By the way, in case you hadn't noticed, the Clinton tax bill is retroactive to January 1st. It's very unusual for a tax boost on individuals to be made retroactive (and, of course, it's blatantly unfair).

* *

The sweeping (better than two-to-one) Senatorial victory of Kay Hutchinson in Texas stands as a warning to Senators in the upcoming vote on the Clinton program. Hutchinson promised voters that she would oppose every single tax increase in the Clinton program. She added that what was needed was tax cuts, not tax boosts. Russell comment: My kind of woman!

* *

Then there was the victory in LA by new mayor, Republican Richard Riordan, over liberal Dem. Michael Woo. LA, a hotbed of liberal Dems, shocked the political world by voting in a conservative businessman. If Clinton and the Senate Dems can't see what's happening, they're in space-ville.

* *

After voting for the Clinton package, San Diego's (Rep. -- D) Lynn Schenck's office was flooded with FAXs from hundreds of angry voters. The volume was so heavy that Schenck's office rashly disconnected the FAX machine for a week before installing a new one with a different number. Right Lynn, if you don't like the message, change the number (Lynn's a friend, so if I do favor different politics, I can't be too harsh).

* *

The first four months of the Clinton presidency reads like a bad dream. Two weeks ago the cover of *Time* magazine blared, "The Incredible Shrinking President" along with a photo of a two inch Clinton. Can contrary opinion work here -- has Clinton hit bottom? Who knows, we don't even know who our chameleon President is or what he wants (except for everyone to tell him he's wonderful). Best advice came from Russell Baker of the *NY Times*. He advises Clinton to stand fast for something, stand fast for just one thing. And stop appointing lawyers from Yale Law School to government positions.

* *

This from Fred Schnaubelt's column in the *San Diego Transcript:* "The Resolution Trust Corp. has hit San Diego and the impact is worse that a neutron bomb. The buildings remain and the people are still alive, but the RTC's massive destruction of commercial property values will be a blight on this city for decades to come. The value of office buildings, apartments, commercial centers and industrial projects in every part of the county is collapsing due to the RTC's wholesale dumping of distressed properties on an already weak market. What the RTC did to Arizona and Texas, it's now doing in California. Over $10 billion in real estate wealth has been lost in San Diego in the past 18 months."

Russell comment: My dad, a real estate man all his life, told me, "Dick, all building booms end up in busts. The builders get wildly optimistic, they build their heads off, and then comes the collapse. But unlike collapses in other industries, building booms provide one big plus. The financing goes under, the builders go under, but the buildings remain -- to be refinanced later by people who know values." My father knew what he was talking about.

* *

From *Forbes,* June 21: "In downtown Los Angeles, where the Japanese own about 45% of all premium office space, values on office buildings have dropped 40% to 50% since the Japanese bought them in the 1980s . . . The vacancy rate in downtown LA has climbed to nearly 25%, and rents have fallen from $30 a square foot for high quality office space to between $15 and $20 a square foot."

* *

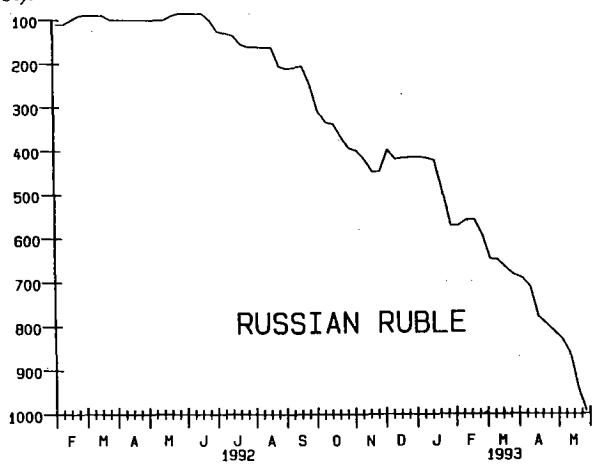
Most people don't realize it but foreign markets provide at last **40%** (that's forty percent) of the profits for the nation's 500 largest corporations. For this reason, understanding what goes on in the volatile currency markets is now a must for any company involved with exports. For instance, Merck gets nearly half its $10 billion in sales from about 40 foreign countries. To hedge against possible losses, Merck makes use of the option market. For instance, if they think the D-mark will be weak, they'll either buy calls on the dollar or buy D-mark puts.

* *

Ed Hyman (*ISI Group*) notes that over the past 13 years the Chinese yuan has collapsed by 80%. His chart shows the price of gold in yuan since 1980. Do you wonder why the Chinese can't get enough gold? Gold smuggled into China now costs over $500.

* *

Ed's chart of the path of the Russian ruble shows the disaster since early 1992. As I've said many times, the Russians should have backed the ruble with gold (of course, the only problem is that the Russians sold much of their gold and Communists big shots stole the rest).



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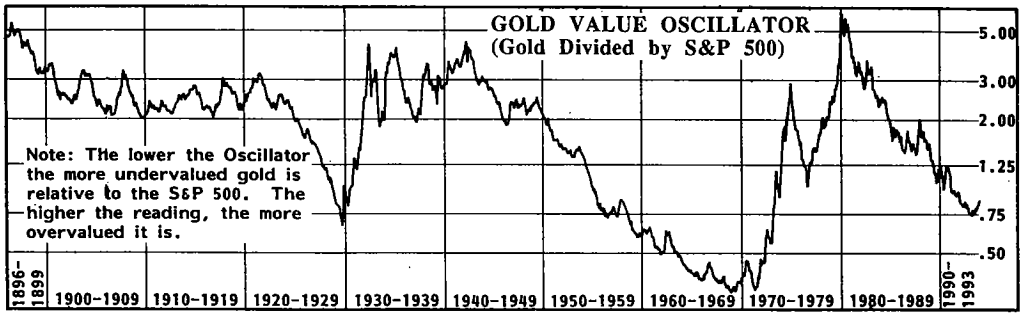
Movies: We almost never go to a movie theater any more. We just tape the films or rent them for $1.79 a night at the Wherehouse. I guess we're not alone. Ticket sales have been dropping year after year. Last year 964 million tickets to the movies were sold, the lowest number in 17 years -- or since 1976. This year through May 31 tickets sales have fallen to 329 million, down from 350 million last year. Russell advice -- if some guy wants to sell you a movie theater, don't do it.

* *

Speaking of the movies, it isn't all glamour. Listen to this from a recent interview with Sylvester Stallone. "I'm five foot ten and weigh 176. When I'm doing a movie I eat the same thing every day. For lunch, it's tuna or chicken salad and cole slaw. That's it. For dinner it's either veal and rice, fish and rice or steak and rice. It gets boring, boy does it get boring . . . Every morning I crawl out of bed, I sit there and think, 'Do I really need this?' And I drag myself to my garage. It's not fun. I hate it. I work out alone.

Weights, I've got 25 different complicated machines, and you're all alone and you're stiff and you've still got sleep in your eyes and every bone in your body hurts and you look at the machine and you know there are 390 or 400 pounds on it and the heaviest thing you've been lifting for eight hours is a pillow." Russell comment: Ugh, but there are compensations: Stallone earns $12.5 to $15 million a picture. Keep pumping, Sly. You can rest when you're 45.



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Leaders in almost every Western nation are dealing with unhappy citizens. What's the problem? "It's the stupid economies." And it's mass unemployment. In the US, well, you know the story here. In France, President Mitterand's party lost almost every open seat in the recent election. In Britain, Major is probably on his way out with his popularity plunging to an unbelievably low 21%. In Italy it's worse, what with the whole political fabric of the country coming apart due to shocking scandals and corruption. In Germany Chancellor Kohl's popularity rating has plunged and is probably even lower than that of Japan's fallen leaders.

* *

The *New York Times* will buy the venerable *Boston Globe* for a very fat $1.1 billion in stock. That's pretty gutsy, since readership in newspapers is sliding off -- you see, half the new readers (kids) are semi-literate and get whatever they know from MTV or more hopefully from CNN. Russell advice to the *Times*, "Don't do it guys, you're paying too much, and my guess is that it will be a lot cheaper a few years from now." But, aw, they'll never listen to me.

* *

"The Big Easy," where it'll be easy to lose your money. Gambling continues to sweep the US. New Orleans is planning the world's largest gambling casino, 400,000 square feet. The near-broke city believes the new casino will bring in around $700 million in revenue a year . . . Speaking of gambling, do you know that your chances of being hit by lightning is 38 times better than your chances of winning the California lottery. But heck, keep spending, you might get lucky.

GOLD: How do you know when gold is cheap? This long-term chart (top of page) may give us the answer (chart courtesy of *Growth Fund Research*, Box 6600, Rapid City, SD 57709). The chart depicts gold divided by the S&P 500.

In effect, the graph line is both a relative strength indicator and a valuation ratio. When the line is high (it peaked in 1980) it means that gold, on an historical basis, is acting much better than stocks, but it also means that gold is expensive compared with stocks.

Conversely, when the line is low (as it is now) it means that stocks on a relative strength basis are much stronger than gold, but it also means that gold is cheap in relation to stocks.

The long decline in the graph from the 1940s to the early 1970s occurred because gold was pegged by the government at $35 an ounce while the stock market was heading generally higher. Then came the rise in gold during the 1970s, a rise that peaked in early 1980. At that time an ounce of gold was selling at better than five times the S&P.

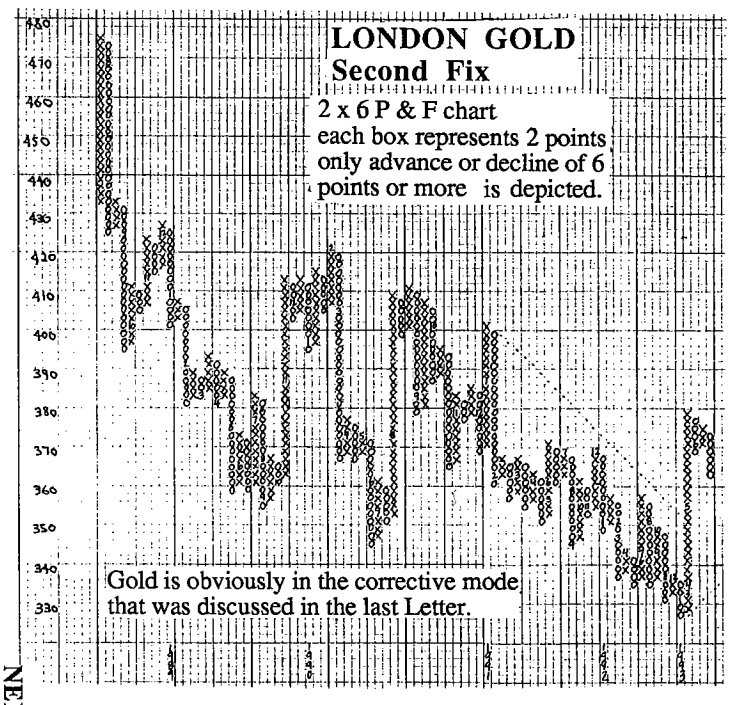
Following the 1979-80 gold explosion, the ratio headed down. Currently, with gold at around 375 and the S&P at around 448, an ounce of gold will only buy 0.83 of the S&P or less than one S&P.

Interestingly, according to this ratio, gold today is more undervalued (compared with the S&P) than it was in 1976, just as the big gold bull market was getting off the ground.

Conclusion: Currently, gold is cheap on an historical basis in comparison with stocks. If this ratio was to "correct" just halfway back to its 1980 high (i.e., from 0.75 to 5.30) and the S&P was to remain in its current area, gold would have to rise above 1300 dollars an ounce. Now that's a thought.

Point & figure charts are valuable because they provide specific reference points. On the accompanying chart we see the "launch," or upward surge. The launch took gold above the declining trendline, thereby signaling a resumption of the bull market. Next we see the most recent downside correction, a correction taking gold back to the 364 box.

What do we look for next? A London (second) fix of **382** would be the signal for a resumption of the bull trend. I believe that 382 would be the signal telling us that gold would move up to test the very important 400 level.


LONDON GOLD
Second Fix
2 x 6 P & F chart
each box represents 2 points
only advance or decline of 6
points or more is depicted.
Gold is obviously in the corrective mode
that was discussed in the last Letter.

LATE NOTES: Finally -- the dollar turning very strong as Japanese Miyazawa government collapses and Europe sinks into high-unemployment deepening recession. Dollar extremely undervalued and buys little or nothing in Japan. Dollar also undervalued in Germany, France, Britain. But Chinese, Russian and Yugo currencies almost wiped out by inflation.

Gold holds up well amid a global deflationary atmosphere, as all currencies come under increasing suspicion. Meanwhile, the US stock market marks time, although the PTI pushes steadily higher. No real trouble expected until the PTI turns down on a trend basis.

Just over the horizon Clinton's monster tax bill (like Spielberg's man-eating dinosaurs) draws ever closer.

NEXT MAILING: July 7, 1993